Is Foreign Aid Panacea for African Problems? The Case of Namibia

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Namibia has experienced impressive growth since 21 years of independence. Current GDP growth rates, estimated at 4–5%, are fuelled mainly by the increasing competitiveness of the mining sector. Mining sector accounts for half of the national foreign exchange earnings. Low scores on capital investment and education, however, is a considerable barrier to greater economic diversification and may contribute to the poor innovation score. As a result, Namibia remains somewhat dependent on foreign aid, despite relatively high average incomes. This paper will discuss the impact of foreign aid on the Namibian economy by systematically analyzing its influence on developing countries using Namibian economy as focus reference. Fifty years since the first official development assistance (ODA) programs were instituted, the question of the effectiveness of foreign aid remains an unresolved issue. The purpose of the study is to investigate whether foreign aid is effective in helping Namibia to achieve development goals.

Key Words: foreign aid; African economy; Namibian economy; economic development; capital investment
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Introduction

Foreign aid has long been a major topic of interest, both between governments and in academic studies.[1] Official aid is often criticized for not have contributed to economic growth and poverty reduction. Foreign aid is always presented as altruistic endeavor on the part of industrial countries, the motivate is to help the Third World nations in Africa, Asia and Latin America achieve progress and development similar to that of the North. However, the impact of foreign aid in the last half century is not impressive. If foreign aid was extended to arrest famine, disease, malnutrition, pandemics, and societal disorder, its goal has not been met and its impact is meaningless. This is particularly true with respect to Africa (Tseggai 2006).

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As foreign aid remains a major source of income for many low-income countries in Africa, it is important to consider its implications for these countries' efforts to foster economic growth. Generally, realization of development and prosperity need decades of hard work. But unfortunately, in today's developing countries especially in Africa most of the rulers and the ruled alike see development as the result only of foreign aid and donor hand-outs, rather than people's own efforts (Boone 1996; Tavares 2003). However, given its dismal development records, Africa falls short of being able to provide its people with adequate resources, to have even the basic capabilities to feed its population and prepare suitable ground for development, the need for foreign aid in these countries seems indisputable. Particularly, today, with soaring fuel and food prices, aid to Africa has even become more essential and timely (Rena 2008).

Nevertheless, this does not mean that, these African nations should submissively accept any political conditions that could open the gate for foreigners to meddle in the internal affairs of the continent as an exchange for any sort of aid. Freedom of sovereign political decision should not be compromised for any charity in the name of foreign aid. Foreign aid can only be valuable, if the recipient country benefits from it in the reduction and elimination of poverty, inequality and unemployment through promotion of work-culture. It can only be realized by bringing cultural transformation to the existing deep-rooted dependency and parasitism, through helping people to help themselves. Aid should not be considered as a principal factor for development; rather it should only be regarded as a necessary compliment to the domestic efforts nurtured by culture of self-reliance and hard work, because aid cannot be depended upon indefinitely. Besides, governments of Africa must be allowed to enjoy what international political economic theorists call 'the policy space' to determine their own trade policies, and to set their development priorities (Rena 2008). Aid can help, but it should be concentrated on countries with good macroeconomic policy and governments genuinely committed to improving public services and infrastructure, and stamping out corruption.

Some people may argue that, foreign aid rescued millions of people around the world, by boosting their economic growth and by increasing an impetus to national development. But in reality, only 16 Western European countries, which received an aid package of about $13 billion, under the Marshall Plan during 1948–1951, and some countries in east Asia, particularly Japan, Taiwan and South Korea have been able to achieve development due to a major role-played by a huge external aid. This situation has also its own peculiarity, both in terms of the amount given, and the way it was used, as well as the extent of political conditions attached to it (Rena 2008).

According to Cowen (2003) the Marshall Plan did not ever exceed 5 per cent of the gross national product of the recipient nations. In the case of Germany, note that we were taking more out of Germany, in the forms of reparations and occupation cost reimbursements (11 to 15 per cent of West German GNP), than we were ever putting in. Then throughout the mid-1950s, Bonn repaid half of the aid it had received. Note that German economic recovery followed from liberalization and reforms, which predated Marshall Plan aid. In 1949–1950, our Marshall Plan aid to France was roughly equivalent to French military expenditures abroad in Indochina and North Africa. Of the European nations, arguably, Belgium recovered from World War II most rapidly, and this happened before Marshall Plan aid kicked in.

Cowen (2003) further discussed that for example, at the end of World War II, the Austrian economy was one of the most desperate in Europe. Austria received high per capita aid sums, but the economy stagnated. Austria later recovered, when it improved its monetary and fiscal policies. Marshall Plan supporter Franz Nemschak wrote: 'The radical cuts in foreign aid in the last year of the Marshall Plan and the stabilization tendencies in the world economy forced Austria to make a basic change in economic policy.' Greece received high per capita aid as well, but had a poor recovery.

Many development economists agree that the effectiveness of America's European Recovery Plan (Marshall Plan), by and large, was due to limited political conditions that required the recipient nations only to cooperate against communist expansion and the way that amount of money was spent. A quick survey of the Marshall Plan for instance, shows that; of the $13 billion allotted, $3.4 billion had been spent on imports of raw materials and semi-manufactured products; $3.2 billion on food, and fertilizers; $1.9 billion on machines, vehicles, and equipments; and $1.6 billion on fuel (Rena 2008).

Moreover, the strategy followed in allocation of aid received by west Europeans, under the Marshal Plan, makes certain that Europeans were given not only aid, but also, their freedom of choice in determining their priorities in allocation of a given aid. As a result, they were able to identify their exact shortcomings and used that aid to fund appropriately the projects intended to alleviate their real problems. But this is not case in Africa; the donors dictate the terms and conditions of the aid where it ultimately brings less result or no result (Mayer and Raimondos-Møller 1999; Collier and Dollar 2002; Masud and Yontcheva 2005; Rena 2008).

This paper discusses the impact of foreign aid on the developing countries in Africa and with a special focus on Namibian economy by systematically analyzing its influence on least developed country's (LDC) and Upper Middle Income Countries using Namibian economy as focus reference. Most Aid was first officially extended for development purposes during and after the Cold War. Fifty years since the first official development assistance (ODA) programs were instituted, the question of the effectiveness of foreign aid remains an unresolved issue. For example, Cape Verde receives the highest net ODA per capita ($438.2); Nigeria receives the lowest ($9.5).[2]

Out of all the developing countries in Africa Namibia is used as the case study of this research; however the other developing countries will be compared to the foreign aid of Namibia. This is mainly because Namibia is a small open economy, which has pursued foreign aid. The purpose of the study is to investigate whether foreign aid is effective in helping Namibia to achieve development goals. When Namibia receives aid it is used to fill the gap between savings and investment.

OBJECTIVES OF THE STUDY

The objectives that this study hopes to investigate are: i) Analyze whether African countries should relay on foreign aid when pursuing economic growth and development; ii) Analyze the main reasons why Namibia receives foreign aid whether there are any potential impacts the economy.

RESEARCH QUESTIONS

An attempt is made in this paper to highlight the features of foreign aid and how they are tailored to parallel donor's interests. In this case, the types of foreign aid extended through bilateral and multilateral protocols are discussed. Furthermore, the impact of foreign aid as can be measured by goals and achievements are also analyzed. Are there altruistic foreign aid programs specifically tailored to bring a positive change in education, health, food production, transportation and industrialization? What has been the effect of foreign aid in the African Continent? When foreign aid is not altruistic, what is the motivation? Is the motivation rational in the sense that the expected benefits are worth the cost to recipient and donor?

RESEARCH METHODOLOGY AND DATA SOURCES

The present study is mainly based on the secondary sources of data. The data has been collected from different articles published in books, Journals, magazines, websites. The data was also collected from research books and reports. The data on Namibia was collected from the reports of the u Commission and Namibian Economic Policy Research Unit (NEPRU), books, internet, etc.

The paper has been organized into five sections. The first section deals with the introduction and the second section provides the relevant literature of the study. Namibian economy and the aid related issues are discussed in the third section. The fourth section, devoted to provide the perspectives & discussion of the study and last section provides the summary and conclusions of the study.

Review of Literature

Recently there has been renewed interest in the reasons and effects of foreign aid. The work of Boone (1996), Burnside and Dollar (2000), and Alesina and Dollar (1998) analyses foreign aid flows for a large number of years and countries and tests a number of hypotheses concerning the effectiveness of aid, the allocation of aid between different recipient countries, the motives for giving aid, etc. These papers' results provide answers to the many questions that have been put forward in the extensive literature on the economics of foreign aid.

Boone (1996) found that aid finance is consumption rather than investment. Financing consumption of a few poor people is not so bad, but the proponents of aid hoped for the kind of society-wide transformation that would come from aid financing investment and growth. Some proponents have argued that aid could also buy time for reformers to implement painful but necessary changes in economic policies. This seems plausible but has not been systematically tested. One could try to alter the incentives to consume aid by tying transfers to purchases of investment goods, as in Bruce and Waldman (1991).

Burnside and Dollar (2000) investigated the relationship between foreign aid, economic policy, and growth of per capita GDP using a new database on foreign aid that had been developed by the World Bank. They run a number of regressions in which the dependent variable of growth rates in developing countries depend on initial per capita national income, an index that measures institutional and policy distortions, foreign aid, and then aid interacted with policies. 'We find that aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies but has little effect in the presence of poor policies.' They suggested that 1 per cent of gross domestic product in aid given to a poor but well-managed country could increase its growth rate by a sustained 0.5 percentage points.

Further, the empirical literature on the connections between aid and economic growth has been hampered by the lack of a clear theoretical model by which aid would influence growth, and which could pin down the empirical specification of the aid-growth relationship. For many years, the standard model used to justify aid was the 'two-gap' model of Chenery and Strout (1966). In this model, the first gap is between the amount of investment necessary to attain a certain rate of growth and the available domestic saving one between investment and saving, while the second gap is the one between import requirements for a given level of production and foreign exchange earnings. At any moment in time, one gap is binding and foreign aid fills that gap.

Easterly (2001) tested the 'financing gap' model in which aid improves investment and growth, using time series data. There are two steps in his argument. First, foreign aid needs to increase investment. Next, investment needs to increase economic growth. He further discussed that how many of these countries show a significant and positive effect of foreign aid on investment, with a coefficient greater than or equal to one? There are 88 aid recipient countries on which we have data spanning the period 1965-1995.

First, Easterly (2001) considers a regression done for each country where the dependent variable here is Investment/GDP and the independent variable is Overseas Development Assistance ODA/GDP. If aid increases investment, then the coefficient on this regression should be positive and greater than or equal to one. Just six of the 88 countries pass this test. The magic six include two economies with trivial amounts of aid: Hong Kong (which got an average of .07 per cent of GDP in aid 1965-1995) and China (average of 0.2 per cent of GDP). The other four countries are Tunisia, Morocco, Malta, and Sri Lanka.

In the next step Easterly (2001) run a regression for each country where the dependent variable is the growth rate and the independent variable is the rate of investment. The coefficient from this regression can then be checked to see whether it falls into the plausible range for the incremental capital–output ratio of between 2 and 5. Using annual data, four countries out of 88 pass the tests of a positive and significant relationship between growth and investment, a constant not significantly different than zero, and an ICOR between 2 and 5. The four economies that pass the tests are an unusual assortment: Israel, Liberia, Reunion (a French colony), and Tunisia (see also Easterly and Ross 1997).

According to Easterly (2001) 'One of the more extreme cases of the 87 out of 88 countries that did not fit the model was Zambia. If Zambia had converted all the aid it received since 1960 to investment and all of that investment to growth, it would have had a per capita GDP of about $20,000 by the early 1990s. Instead, Zambia's per capita GDP in the early 1990s was lower than it had been in 1960, hovering under $500.'

The 'financing gap' model in which aid increases investment and then that investment increases economic growth has dubious theoretical foundations and numerous empirical failings. Yet no other model of aid and growth has arisen to take its place. The financing gap model continues to be used today in the World Bank and other institutions making aid policy (Easterly 1999).

According to Bräutigam and Knack (2004) aid dependence cannot be directly measured, so they used a proxy that reflects 'aid intensity' – net aid flows as a percentage of gross domestic product (GDP) and aid as a percentage of government expenditure. In 1980, 13 sub-Saharan countries were receiving net aid (aid inflows minus principal repayments) at levels above 10% of GDP, by 1990, that figure had more than doubled, to 30 countries. In 1998, 21 countries continued to receive aid at that level. Almost all of them had been net recipients of aid flows at 10% of GDP for 10 years or more. In a number of countries such as Malawi, Ghana, and Zambia, aid has funded more than 40% of government expenditures, on average, for nearly 20 years (Bräutigam and Knack 2004).

Arellano et al. (2009) investigated in the case of Ivory Coast and found that as aid increases, it becomes an increasingly dominant influence on economic developments in the model economy. For example, the correlation coefficient between aid and GDP increases to 0.6 when aid is equivalent to 20% of GDP relative to the 0.2 correlation in the benchmark model. We observe similar shifts along the aid continuum in the relationship between aid and tradable output (a stronger negative relationship) and non-tradable prices (a stronger positive relationship). Higher aid levels can also rationalize a positive relationship observed in the data between non-tradable prices and GDP because higher aid levels increase both variables. The correlation between GDP and the non-tradable relative price when aid inflows are on average 20% of GDP is equal to 0.4 (as compared to −0.7 with aid equal to 0% of GDP). Higher aid inflows also increase the volatility of all variables in the economy. Consumption volatility increases from 11% to 15% relative to the benchmark model when aid flows are increased to 20% of GDP. Investment and aggregate output also become much more volatile with higher aid flows. Finally, the relative price of non-tradables is three times as volatile (12% compared with 4%) when aid flows are 20% of GDP relative to the benchmark. Our results show that aid volatility is especially costly for economies that receive large aid inflows.

On the contrary, researchers like Moyo (2009a, 2009b), Rena (2008) concluded that aid had no substantial impact on growth, savings or investment. Aid was shown to increase unproductive public consumption (Mosley 1992). Aid is misallocated (donors give aid for strategic reasons to the wrong recipients), aid is misused (recipient governments pursue non-developmental agendas) and GDP growth is not achieved (Lensink and White 2001). Most of the foreign aid Namibia receives is very specialized and when the donors pull out of the project they fall apart as Namibia does not have the technical capability to continue the projects. Excessive foreign aid also leads to the recipient country being too dependent on the donor's country, which may lead to the infant effect on the economy or misappropriation of funds (corruption). El Shibly (1984) by using Sudan as a laboratory test ground acknowledged that foreign capital neither boosted economic growth nor abridges the gap between savings and investment.

According to Chenery and Strout (1966), developing countries face constraints on savings and export earnings that hamper investment and economic growth. Aid flows are meant to fill the gap between investment needs and domestic savings, but this study faced severe criticism virtually since its origin. Foreign aid is important to developing countries (LDCs) and lower-middle income countries such as Namibia, because it is used to face their economic and social challenges' namely: poverty, HIV/AIDS, malaria and other communicable diseases, unequal distribution of income, inadequate economic growth, high level of unemployment, human resource development and inadequate capacity.

More than $50 billion of foreign aid is given to African countries every year to address poverty on the continent. Although this may seem generous, and to some a solid strategy to treat Africa's ailments, Dambisa Moyo – a Zambian economist with a background that includes Harvard, Oxford and Goldman Sachs – says just the opposite. In her new book, Dead Aid: Why Aid is Not Working and How There is Another Way for Africa, Moyo claims that foreign aid has been 'an unmitigated political, economic and humanitarian disaster.' However, Moyo stated that although she is not completely against humanitarian aid, she doesn't believe 'charity-based aid' can provide long-term sustainable development for Africa. Her biggest issue is with 'government-to-government aid,' and funds from large monetary institutions like the World Bank. Moyo says the $60 trillion of this aid that has been given in the past 60 years is not working, evident from the fact that the number of Africans who live on less than $1 day has doubled in the last 20 years. In addition, most foreign government aid, she argues, has been pocketed by corrupt politicians.

Moyo further vowed that foreign aid actually increases the risk of civil conflict. People will take up arms to be in power because 'the victor gains virtually unfettered access to the package of aid that comes with it.' Further, Moyo said in an interview with the New York Times, trade, foreign investments and microfinance opportunities can provide a better future for Africans.

Several other researchers also addressed the problem of aid and economic development. According to Bandow (2002) foreign aid has failed despite the best efforts of many dedicated professionals. Bandow supported his clam by using African countries that received aid in 1970 and 1995, The United Nations Development Program reported in 1996 that 70 developing countries were poorer then than they were in 1980; 43 were poorer than they were in 1970. Bandow argument is supported by Dambisa Moyo (2009a) also advocated that Limitless development assistance to African governments has fostered dependency, encourage corruption and ultimately perpetuate poor governance and poverty, foreign aid helps perpetuate the cycle of poverty and hinders economic growth in Africa.

Is a voluntary transfer of resources from one country to another, given at least partly with the objective of benefiting the recipient country? It may have other functions as well it may be given as a sign of diplomatic approval, or to strengthen a military ally, to reward a government for behavior desired by the donor, to extend the donors cultural influence, to provide infrastructure needed by the donor for resource extraction from the recipient country, or to gain other kinds of commercial access. Humanitarianism and altruism are nevertheless, significant motivations for giving of aid. Aid may be by individuals, private organizations, or governments.

PERSPECTIVES AND CRITICISM ON MOYO'S AID PHILOSOPHY

As expected, Dambisa Moyo's claims have raised serious criticism. In an interview with Newsweek, ONE Campaign co-founder Jamie Drummond says 'Dead Aid' is 'a poor polemic, with nothing new of substance, filled with anecdotal micro examples which ignore mountains of evidence.' Madeleine Bunting from the Guardian calls Moyo's claims 'poorly argued' with 'frequent pre-emptory glib conclusions.'

As Sharma (2009) quoted, Moyo blames 'government-to-government aid' and 'large developmental organizations' like the World Bank, rather than charity-based aid for Africa's worsening situation. She says funds from governments and the bank have not contributed to development and in many cases are misused.

Sharma (2009) also stated that according to Laura Miller, Mercy Corps, 'the main objective of bilateral aid isn't always humanitarian relief; it's also used to help strengthen fragile or strategic states and improve trade relations with the West. Money from the World Bank is often geared more towards large infrastructure projects such as water systems and road networks. Usually the recipient government is responsible for managing funds given by the World Bank. Some countries' governments are more transparent and provide more oversight over aid money than others.'

Moyo does question the value of 'charity-based aid,' too. She says it might help after a disaster, but says it only provides 'band-aid solutions' and can't be the 'platform for long-term sustainable growth.' Her example is giving a young African girl a scholarship even though she's unlikely to find a job after finishing school. Even if Moyo is correct that after receiving an education it may be difficult for graduates to find work, education is still important, and aid agencies such as Mercy Corps are working to help strengthen economic opportunities, although humanitarian agencies cannot help everyone.

Namibian Case Study

PROFILE OF THE COUNTRY

Republic of Namibia is a country in Southern Africa with an area of 825,418 km². Namibia is the world's thirty-fourth largest country (after Venezuela). Namibia's western border is the Atlantic Ocean. It shares land borders with Angola and Zambia to the north, Botswana to the east and

South Africa to the south and east. It gained independence from South Africa on 21 March 1990, following the Namibian War of Independence. Its capital and largest city is Windhoek. Namibia is divided into 13 regions and subdivided into 107 constituencies and a stable multi-party parliamentary democracy (CIA 2012).

Agriculture, herding, tourism and the mining industry – including mining for gem diamonds, uranium, gold, silver, and base metals form the backbone of Namibia's economy. The economy is tied closely to South Africa's due to their shared history. The largest economic sectors are mining (10.4% of the gross domestic product in 2009), agriculture (5.0%), manufacturing (13.5%), and tourism. Namibia's nominal GDP (2010 estimate) – total \$11.865 billion and the Per capita \$5,651. However, according to 2003 estimates the Gini-coefficient rate 0.66 (highest in the world and the Human Development Index of Namibia is registered to be 0.606 (105th out of 174 countries) in 2010 (CIA 2012). Namibia has a population of 2.4 million people out of which little more than 50% (51.2%) people are unemployed and the nation has suffered heavily from the effects of HIV/AIDS, with more than 15% of the adult population infected with HIV in 2007 (Republic of Namibia 2008).

Paradoxically based on per capita income, Namibia has moved from lower middle country to the list of Upper Middle Income Countries by April 2011 by the World Bank. However, the fact is approximately half the population lives below the international poverty line of US \$1.25 a day. With this background, Namibia therefore receives foreign aid (Rena 2010; NPC 2011; CIA 2012). Although, Namibia has experienced impressive growth since its independence, but the growth rate was slowed down since 2005 and shown a negative growth of 0.8 percent in 2009. However, GDP growth rates, estimated in 2010 at 4–5%, are expected to fuel mainly by the increasing competitiveness of the mining sector (as indicated by relative movements in price levels). Mining accounts for half of national foreign exchange earnings. Low scores on capital investment and education, however, is a considerable barrier to greater economic diversification and may contribute to the poor innovation score (NPC 2007). As a result, Namibia remains somewhat dependent on foreign aid, despite relatively high average incomes. As stated earlier that Namibia was classified as upper middle-income country (UMC) by the World Bank but the ground reality in the country is different and more than 50 percent of the people are unemployed and large portion of people living below poverty line. Further, due to legacies of its colonial and apartheid history

Namibia has one of the most unequal distributions of income and wealth in the world (NPC 2011).

The country also faces a number of other economic and social challenges, including poverty, the HIV/AIDS pandemic inadequate economic growth, high levels of unemployment, inadequate capacity, and low levels of industrialization, which also require additional resources. Given the vulnerability of the economy to the unpredictability in international financial markets, increased grant aid and concessional loans are the appropriate means with which the international community should assist Namibia (Blaauw, Oranje, and Schade 1998). 'Aid for Trade' and Technical Assistance (TA), should be provided, sustainable, and aligned to national development plans and strategies.

However, the aid flows have continued to decline steadily from US $110 per capita in the 1990s to US $60 per capita in 2005. In addition, the number of bilateral donors active in Namibia declined from 22 in the 1990s to 17 in 2006. Furthermore, donor assistance in the form of technical assistance (TA) and other areas is not as enthusiastic and effective as it should be. Thus, there is an urgent need to analyze and identify the ways in which the donor community should effectively assist.[3]

Namibia has been benefitted from the foreign aid for more than 2 decades, it is also clear evidence that without donor aid Namibia cannot sufficiently stimulate local enterprise and development, trigger off foreign investment and create working opportunities for jobless people in the country. The secret of success for an optimized donor aid is that Namibia has to go for a stimulation of its economy without getting to high debts. It has been the general opinion of the people in Namibia that aid should be given without any strings attached to it and further the Vicious Donor Aid/Debt Circle has to be broken so that the aid can support the economy to grow. Therefore at this point of time, Namibia cannot be better-off without foreign aid.

Discussion

In 2002 at the Monterrey Consensus of the International Conference on Financing for Development highlighted the importance of increasing international finance and technical cooperation for development. This was followed by the initiatives of Multilateral Financial Institutions (MFIs) and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC) to enhance and ensure the effective and efficient use of foreign aid.

The Monterrey conference was followed by the Paris Declaration (2005) that advocated for (i) harmonization of donor operational policies and procedures to reduce the transaction cost on aid recipient countries; (ii) alignment of aid to recipient country development priorities and plans as articulated in National Development Plans; and (iii) Mutual (donor and recipient) accountability for the results.

The Declaration also contained twelve indicators and targets, among which is the reiteration of the need for the donor countries to fulfill their commitment to provide 0.7% of their Gross National Income (GNI) as aid to developing countries.

Foreign aid or (development assistance) is often regarded as being too much, or wasted on corrupt recipient governments despite any good intentions from donor countries. In reality, both the quantity and quality of aid have been poor and donor nations have not been held to account.

Further, in 1970, the world's rich countries agreed to give 0.7% of their gross national income as official international development aid (IDA), annually. Since that time, despite billions given each year, rich nations have rarely met their actual promised targets (Hadjimichael et al. 1995). For example, the US is often the largest donor in dollar terms, but ranks amongst the lowest in terms of meeting the stated 0.7% target. Whereas the small countries like Luxemburg, Switzerland, Norway, Sweden met their promises.

Furthermore, aid has often come with a price of its own for the developing nations (Shah 2012): (i) aid is often wasted on conditions that the recipient must use overpriced goods and services from donor countries; (ii) most aid does not actually go to the poorest who would need it the most; (iii) aid amounts are dwarfed by rich country protectionism that denies market access for poor country products, while rich nations use aid as a lever to open poor country markets to their products; and (iv) large projects or massive grand strategies often fail to help the vulnerable; money can often be embezzled away.

As Rena (2008) argued that the aid should not be seen as the panacea to all African countries' problems. Instead, they must be allowed to trade its way out of poverty through utilizing its own resources, by reinforcing its participation in international trade. For example, currently, the African continent accounts less than 4% of the global trade. But a further 1 per cent increase in trade from Africa would be the equivalent of five times the amount of aid the continent currently receives. Therefore, Africans have to sort out their weakness and work to remedy them by developing good policies which help to effectively use foreign aid in line with domestic resources (Rena 2008).

The aid should be 'acceptable,' so long as it represents an injection of resources into the national economy that enables investment, and hence growth. At the same time 'it should not be acceptable' with any sort of criteria that may undermine freedom of sovereign political decisions, or as a means to foster dependency rather than self-reliance (Rena 2008).

Moyo (2009a) observed that in 2002, the African Union (AU), an organization of African nations, estimated that corruption was costing the continent $150 billion a year, as international donors were apparently turning a blind eye to the simple fact that aid money was inadvertently fueling graft. With few or no strings attached, it has been all too easy for the funds to be used for anything, save the developmental purpose for which they were intended.

In Ethiopia, where aid constitutes more than 80% of the government budget, a mere 2% of the country's population has access to mobile phones (the African country average is around 30%). Might it not be preferable for the government to earn money by selling its mobile phone license, thereby generating much-needed development income and also providing its citizens with telephone service that could, in turn, spur economic activity?

There is a classic example, how the Aid is destabilizing the domestic small and medium scale enterprises in Africa, for example, there is a mosquito-net maker in small-town Africa. Say he employs 10 people who together manufacture 500 nets a week. Typically, these 10 employees support upward of 15 relatives each. A Western government-inspired program generously supplies the affected region with 100,000 free mosquito nets. This promptly puts the mosquito net manufacturer out of business, and now his 10 employees can no longer support their 150 dependents. In a couple of years, most of the donated nets will be torn and useless, but now there is no mosquito net maker to go to. The people will have depended more on aid and subsequently, the African governments once again get to abdicate their responsibilities.

In a similar vein has been the approach to food aid, which historically has done little to support the African farmers. Under the auspices of the US Food for Peace program, each year millions of dollars are used to buy American-grown food that has to then be shipped across oceans. One wonders how a system of flooding foreign markets with American food, which puts local farmers out of business, actually helps better Africa. A better strategy would be to use aid money to buy food from farmers within the country, and then distribute that food to the local citizens in need (Moya 2009b).

Africa remains the most unstable continent in the world, beset by civil conflicts and war. Since 1996, 33 out of 55 countries in Africa have been embroiled in civil wars directly or indirectly. According to the Stockholm International Peace Research Institute, in the 1990s, Africa had more wars than the rest of the world combined. Africa's tragedy has been well known for a while now. Every African nation in crisis, from brutal civil wars in Sudan, Angola, and Chad, not to mention Rwanda's genocide and the recent carnage in the Democratic Republic of the Congo, Somalia to Liberia has received billions of dollars from the West in the form of foreign aid but still today nearly fifty percent of the their population lives on less than $2.5 a day. In July 2005, the G-8 agreed to double foreign aid to Africa, from $25 billion a year to $50 billion to finance the 'big push,' as well as to forgive the African aid loans contracted during previous attempts at a 'big push' (Rena 2008).

Moyo (2009a) argued that the proponents of aid are quick to argue that then $13 billion aid of the post-World War II Marshall Plan helped pull back a broken Europe from the brink of an economic abyss, and that aid could work, and would work, if Africa had a good policy environment. The aid advocates skirt over the point that the Marshall Plan interventions were short, sharp and finite, unlike the open-ended commitments which imbue governments with a sense of entitlement rather than encouraging innovation. And aid supporters spend little time addressing the mystery of why a country in good working order would seek aid rather than other, better forms of financing. No country has ever achieved economic success by depending on aid to the degree that many African countries do. Further, economically successful countries such as China and India, and Namibian neighbors like South Africa and Botswana. Their strategy of development finance emphasizes the important role of entrepreneurship and markets over a staid aid-system of development that preaches handouts. This is the time for Africa especially emerging country Namibia to exercise maximum discipline on how it manages its foreign aid. India, China, the West and other emerging powers are also trying to provide aid to Africa to serve the people in Africa and also serve their own interests.

Conclusion

To conclude that there is encouraging evidence that countries with good track records of macroeconomic management, as well as good governance, do better at development, whether measured as growth, literacy, or infant mortality. Aid is more likely to have its intended impact where governance and policy provide a solid foundation for development. The task for the international community and aid-dependent countries alike is to respond to the challenge of weak states by providing incentives for good governance rather than the incentives for poor governance inherent in the present system.

In line with this, Governments in Africa need to attract more foreign direct investment by creating attractive tax structures and reducing the red tape and complex regulations for businesses. There is a dire need that the African nations should also focus on increasing trade within Africa and rest of the world especially China is one promising partner. Besides, the Western countries can help by cutting off the cycle of giving something for nothing. It is time for a change towards development. It is extremely important to support the local economy because too much dependence on foreign aid can crush the local economy, and it's not sustainable in the long run. Material aid is appropriate when goods cannot be procured locally. Some organizations use a social marketing approach; instead of distributing goods for free, goods are sold through existing markets, which ensures that this cycle can continue over the long term.

Indeed, many of Moyo's solutions can help development in Africa, but it's important to focus on all levels of society: the household level, the community level and the institutional level. As a matter of fact, we should not deny the honest contributions made by some NGOs that focused on economic development and provided an impetus for in the upliftment of the socio-economic development of Africa. However, with the aid, there is a need to promote demand-driven development, link producers with markets, and foster entrepreneurship among the local population that may bring sustainable development in the second largest and resource rich continent.

All developing countries in Africa including Namibia (being a upper middle income country) need foreign aid, without any preconditions. For example, the donor country should not decide on what kind of projects and issues a given foreign aid is spent. Furthermore, donors usually never offer a large sum of aid in cash that would possibly help to cover the requirements of the recipient country in budget deficit, or to fund an import of necessary machineries and other essential raw materials like; fuel, food and other commodities etc. Moreover, their decisions often give more consideration to their national interests represented in terms of political or economic conditions, rather than to the real needs of the recipient countries in Africa. Therefore, foreign aid in Africa has become controversial. It is therefore strongly argued that the foreign aid is important but not a panacea for the African economic development. Finally, it is believed that, 'do not give a fish to the people but teach them how to get the fish.' This will virtually stimulate the trade and development and subsequently reduce dependency of foreign aid.

Notes

1 This article is revised version of the paper presented at the 8th African Finance Journal Conference on the theme 'Essential Development Finance Research for Africa's Development' held 14–15 April 2011 at Safari Hotel, Windhoek, Namibia.

2 Please refer to http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20563739menuPK:1613741pagePK:146736piPK:146830theSitePK:258644,00.html

3 Available at www.npc.gov.na (International Conference on Development Cooperation with Middle Income Countries (MICs), Madrid, Spain, 1–2 March 2007).

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